Colonial Oil & Gas Limited

Annual Report 1980

Colonial Oil and Gas Limited and Subsidiaries

COG Inc.
Fort Nelson Gas Ltd.
Fort Nelson Transmission Co. Ltd.
General Utilities Corporation Ltd.
West Ridge Resources Ltd.

Directors:

Senator R. James Balfour, Q.C.,
Senate of Canada, Ottawa, Canada

John L. Gibson
President, Vancouver Distribution Centres Ltd. Vancouver, B.C.

Robert W. Hole
President, Lockerbie & Hole Ltd., Vancouver, B.C.

Harvey A. McDiarmid
Chairman, Colonial Oil & Gas Ltd., Vancouver, B.C.

Horace ReKunyk
President, Colonial Oil & Gas Ltd., Calgary, Alberta
Director, Mineral Engineering Company, Denver, Colorado

John B. Ross
President, Canlan Investment Corporation, Vancouver, B.C.

James M. Thomson, Q.C.
Associate, Milner & Steer, Calgary, Alberta

Peter Van Drimmelen
Managing Director, Netherlands Acceptance Corporation Ltd., Vancouver, B.C.

Officers:

Harvey A. McDiarmid, *Chairman*
H. ReKunyk, *President*
Gary F. Aitken, *Vice-President*
Robert W. Hole, *Vice-President*
Fred W. Maycock, *Secretary*
Charles W. Templeton, *Exploration Manager*

Notice of Annual Meeting
of Shareholders
10:00 a.m., May 22nd, 1981
Connaught Room, Georgia Hotel
Vancouver, British Columbia.

Registered Office:

24th Floor, Ocean Plaza
1066 W. Hastings Street
P.O. Box 12534
Vancouver, British Columbia
V6E 3X1 Canada

Administration Office:

1300 - 100 West Pender Street
Vancouver, British Columbia
V6B 1R8 Canada
Telephone (604) 685-9821

Operations Office:

620, 304 - 8th Avenue S.W.
Calgary, Alberta
T2P 1C2 Canada
Telephone (403) 233-7350

COGAS Resources Ltd.
Suite 180, 1010 Lamar
Houston, Texas 77002
Telephone: (713) 651-9603

Bankers:

THE ROYAL BANK OF CANADA
1025 West Georgia Street
Vancouver, British Columbia
V6E 3N9 Canada

Auditors:

DELOITTE HASKINS & SELLS
1500 - 1055 West Georgia Street
Vancouver, British Columbia

Registrar and Transfer Agent:

MONTREAL TRUST COMPANY
Vancouver and Regina, Canada

Highlights

	1980	1979
Financial		
Revenues	**$ 4,543,655**	$ 4,559,497
Net Income	**687,850**	768,634
Per Share (Cents)	**10.3**	13.4
Cash Flow	**1,511,070**	1,643,647
Per Share (Cents)	**22.25**	25.25
Working Capital	**1,886,749**	2,001,833
Total Assets	**20,671,669**	11,546,642
Shareholders' Equity	**9,482,874**	7,801,215
Operating		
Crude Oil Produced – Barrels	**16,614**	14,223
Gas Produced – Mcf	**1,262,553**	1,546,764
Fort Nelson Gas Ltd.		
Mcf Gas Sold or Transported	**1,282,000**	1,230,000
Number of Customers	**1,239**	1,120

Letter to Shareholders

The 1980 Annual Report to shareholders presents a record of continuing growth of the Company's total assets and volume of operations. Consolidated gross revenues are virtually unchanged. Cash flow and earnings have decreased as a result of increased cost of the Company's utility operation which cannot be offset by counterbalancing rate base increases until 1981.

Revenue, cash flow and earnings from oil and gas operations, although unchanged, have been limited due to restriction of gas production imposed by the Company's gas purchasers in Alberta and Montana. This limitation in revenue and earnings has been partially offset by a $316,000 contract minimum take-or-pay payment which cannot be credited to revenues or earnings under our adopted accounting practices.

Consolidated gross revenues, cash flow and net income for 1980 were $4,543,655, $1,511,070 and $687,850 compared to $4,559,497, $1,643,647 and $768,634 respectively, for 1979.

The foregoing figures, however, are not indicative of the future growth potential of the Company as they do not reflect the strong inventory base of reserves established during 1979 - 80, which, because of lack of adequate markets, will be shut-in until gas purchase contracts can be negotiated.

The Company experienced its most active year during 1980, participating in a total of 64 wells, resulting in 30 gas wells, 22 oil wells and 12 abandonments.

Also during 1980, total assets increased to $20,672,000 compared to $11,547,000 in 1979 reflecting growth in properties and proceeds from long-term funding. This improved financial position, together with a substantial amount of unencumbered assets provide the Company with the financial ability to undertake the expanded capital expenditures planned.

In November, 1980, the Company completed a private placement of $7 million convertible debentures bearing interest at 9%, payable semi-annually with no principal payments required prior to November, 1984. The debenture holders have the right to convert to shares of the Company at prices escalating from $6.25 in 1981 to $10.00 per share in November, 1990. Capital commitments and exploratory expenditures for the first quarter of 1981 totalling approximately $6,000,000 were made pursuant to corporate plans to enlarge the Company's asset base in North America. We are confident of the Company's ability to achieve profitable long-term investments in order to increase shareholders real equity.

Based on a comparison of attitudes demonstrated by the Canadian and United States Governments towards oil and gas price controls, the Company's current emphasis will continue to be directed to a selective but increased exploration effort in the United States. This direction has been confirmed following the 1980 U.S. election where the new administration has eliminated price controls on domestic crude oil and is accelerating price de-control of natural gas.

During 1980 and subsequent to year-end, substantial steps have been taken toward increasing our participation in the United States through our newly opened Houston office and the purchase of a 15,000′ capacity diesel electric drilling rig. We anticipate that the shortage of quality rigs in the active areas of the U.S. will afford us the opportunity of participating in prospects generated by other companies. We are confident that an agreement may soon be reached regarding the Company's participation in a multi-well farmout from a major company in the U.S. involving several hundred thousand acres of leases.

A serious struggle continues within Canada between Governments of the western producing provinces and the Canadian Federal Government regarding sharing of oil and gas revenues. The resulting confrontation and more particularly the Federal Government's National Energy Policy, has seriously affected the short-term profitability of the industry in Canada. Despite these current conditions we believe that the long-term growth of the Company will be achieved by exploitation of opportunities in Western Canada. As a result of the disparity that has been created by the National Energy Program between Canadian companies (75% Canadian controlled) and foreign companies, opportunities exist for companies such as Colonial to benefit from the new regulations. The Company is adjusting its exploration efforts to take maximum advantage of the incentives and grants available for drilling in Canada. Further new opportunities exist in the area of acquisition of established oil and gas reserves. In line with these parameters, we are currently evaluating several producing properties and are confident that one or more acquisitions may be made during 1981. We are also negotiating a multi-well farmout of several prospects in Western Canada involving approximately 150,000 acres that may be drilled by Colonial and partners to take advantage of the incentives and grants set forth in the National Energy Program.

During 1980 Colonial has changed the fundamental organization of the Company in order to establish a proven technical and administrative staff adequate for the Company's business objectives in future years.

During 1980 Mr. Gary F. Aitken joined the Company as Vice-President with primary responsibilities in the area of corporate development and land. In addition, Mr. Anthony R. Venditti joined in February, 1981 with the primary responsibility of directing the U.S. exploration out of the Houston, Texas office.

Mr. Edward Daughney retired as a director of the Company on January 23, 1981. We wish to express our appreciation to Mr. Daughney for the valued contributions he has made to the Company, its shareholders and management.

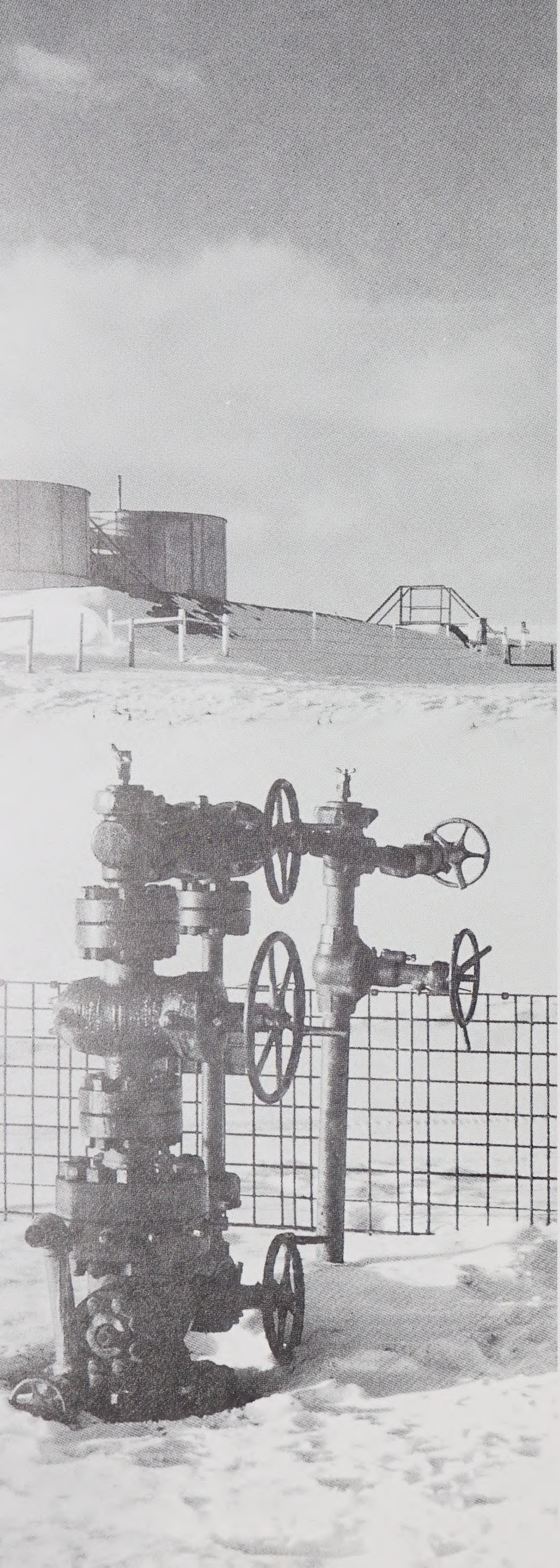
We wish to express our appreciation for the dedicated efforts of our employees and for the continued support of our shareholders.

On behalf of the Board,

HORACE ReKUNYK
President

HARVEY A. McDIARMID
Chairman

Calgary, Alberta
April 29th, 1981



Operations Review

Production and Reserves

Crude oil and natural gas condensate production during 1980 increased 17% from 14,223 barrels to 16,614 barrels. Larger gains are expected for 1981 and subsequent years as new properties are placed on production.

Natural gas production decreased approximately 18% from 1,546,764 thousand cubic feet to 1,262,553 thousand cubic feet for the previous year. The decrease resulted from reduced demand by gas purchasers. Natural gas production for 1981 should remain at approximately the level established during 1980.

The Company's gross reserves of crude oil and natural gas increased by approximately 11%.

The average price received during 1980 for crude oil was $16.50 per barrel in Canada and $44.84 per barrel in the United States compared to prices in 1979 of $11.96 in Canada and $20.43 in the U.S.

The average price received during 1980 for natural gas was $2.36 per Mcf in Canada and $2.21 per Mcf in the United States compared to prices in 1979 of $1.62 in Canada and $2.03 in the U.S.

Reserves

The Company's gross proven reserves presented in this report have been calculated by the Company's staff, and approximately 75% has been confirmed by the Company's consultants. The following figures include both developed and undeveloped reserves. Developed reserves are the quantities that can be recovered with existing equipment and operating methods.

Undeveloped reserves are the volumes estimated to be recoverable from wells to be drilled on proven acreage, from recompletion of existing wells or from the installation of new facilities. Reserves on undrilled acreage are limited to drilling spacing units where it can be demonstrated with reasonable certainty that there is continuity of production.

Gross reserves reflect the Company's ownership interest before deducting royalties. Reporting on a gross basis provides more reliable year-end reserve data and facilitates year to year comparison of performance.

Net reserves projections are less reliable as a result of the frequent changes in basic royalty rates and supplementary royalties which may vary with price and production rates.

Proven developed and undeveloped reserves at March 31, 1981 were 38 Bcf of natural gas and 320,000 barrels of oil and natural gas liquid. Reserve additions for 1980 are approximately 4.0 Bcf and approximately 165,000 barrels of oil.

Exploration and Development

The Company, in 1980, had its most active drilling year participating in a total of 64 wells either directly or through Joint Venture programs. In Canada, the Company participated in 47 wells which resulted in 20 oil wells, 21 gas wells and six abandonments. In the United States drilling resulted in two oil wells, nine gas wells and six abandonments.

In 1981, Colonial will continue to expand its efforts in the United States where markets for both oil and gas are readily available. In Canada, the Company plans to place greater emphasis on the acquisition of properties which have oil potential.

Canada

British Columbia

Four gas wells were drilled in the Trutch area of northeastern British Columbia during the early part of 1980. Each was completed as a Halfway sand gas well. The Company and the Joint Venture hold interests varying between 3.33% and 11.76% in the five shut-in wells in this area.

Colonial now holds interests in four drilling reservations and four 640-acre leases in the Trutch area.

Four wells have been planned for early 1981 — two of these will be located on the drilling reservations noted above. In addition, Colonial has committed to the drilling of two exploratory tests in the western portion of the Trutch area, on a farmout arrangement from a major oil company.

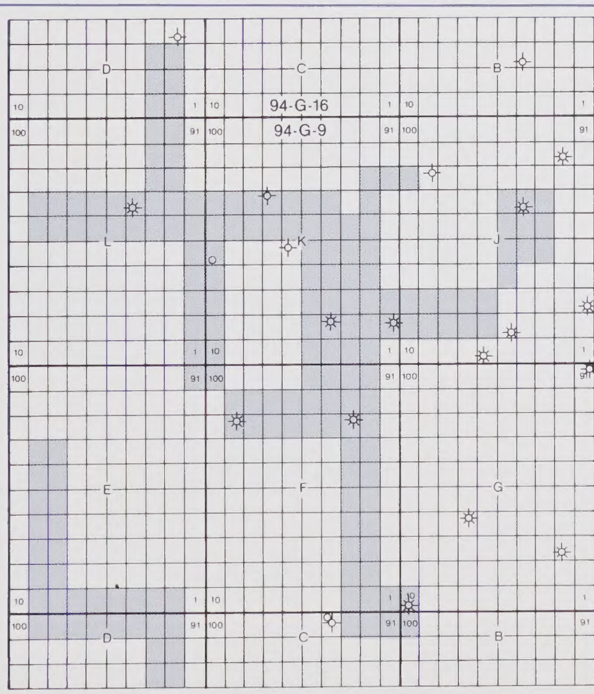
One of these wells will be located four miles west of lands on which the Company has already participated in drilling. The second well will be located two miles south of a Halfway gas discovery drilled by another company.

The Trutch gas region encompasses an area approximately thirty miles east-west and eighteen miles north-south, a total area of over 500 square miles. To date, approximately forty wells within this area have been cased as gas wells. Very few recently drilled wells have been abandoned. Development of this large gas area has been slow because of lack of markets.

The Company's expenditures in this area have been made in the anticipation of first gas sales being made in 1985-86. Further development of the properties will be undertaken when date of first production becomes more definite.

Alberta

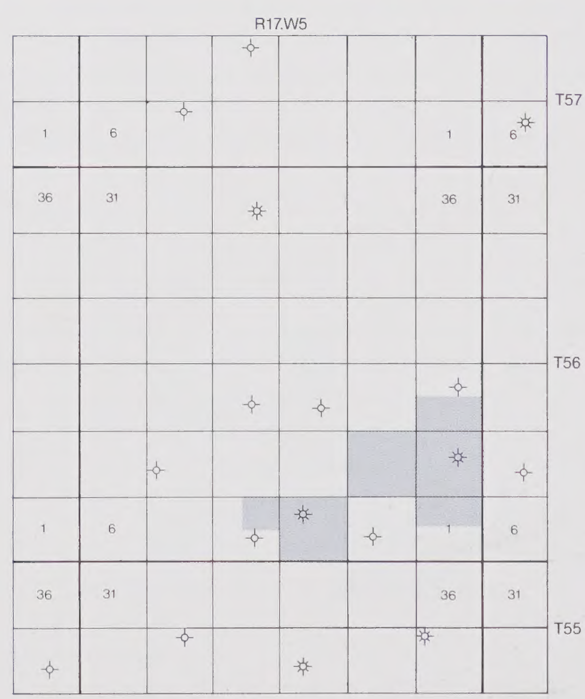
Development drilling continued in several eastern Alberta gas fields where the Company in 1979 acquired various interests in 120 wells and surrounding acreage. Thirteen wells were drilled on these lands in 1980 resulting in the



TRUTCH
British Columbia

Company Interest Lands

0 1 2 3 Miles



SHINING BANK
Alberta

Company Interest Lands

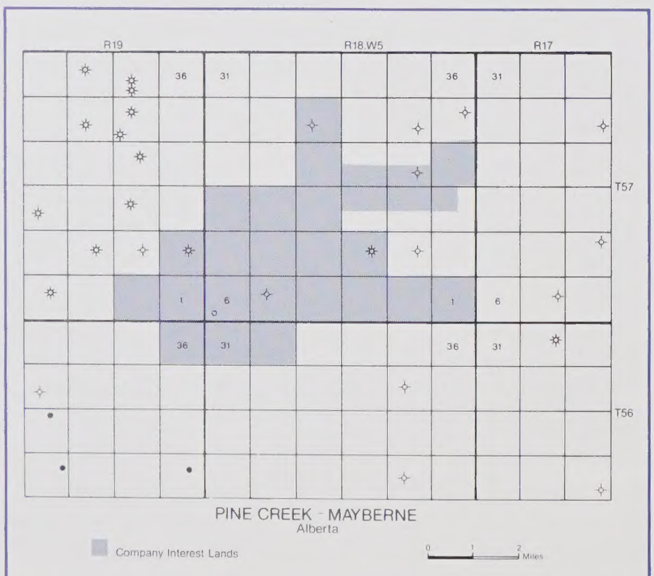
0 1 2 Miles

completion of seven gas wells. Gas wells were drilled in the Edgerton, Edwand, Plain and Stanmore areas.

In western Alberta, the Company and the Joint Venture participated in the drilling of four exploratory tests in the Pine Creek and Shiningbank areas. These two areas are located approximately 100 miles west of Edmonton in the deep portion of the Alberta basin. Several Cretaceous sands are potential gas reservoirs. Two of the wells were completed as gas wells, casing was set on a third for further evaluation and the fourth abandoned. Further land acquisitions were made following commercial gas flows at two of the wells. Subsequent to year-end, one more well was started at Pine Creek. Additional drilling is also planned for the Shiningbank region.

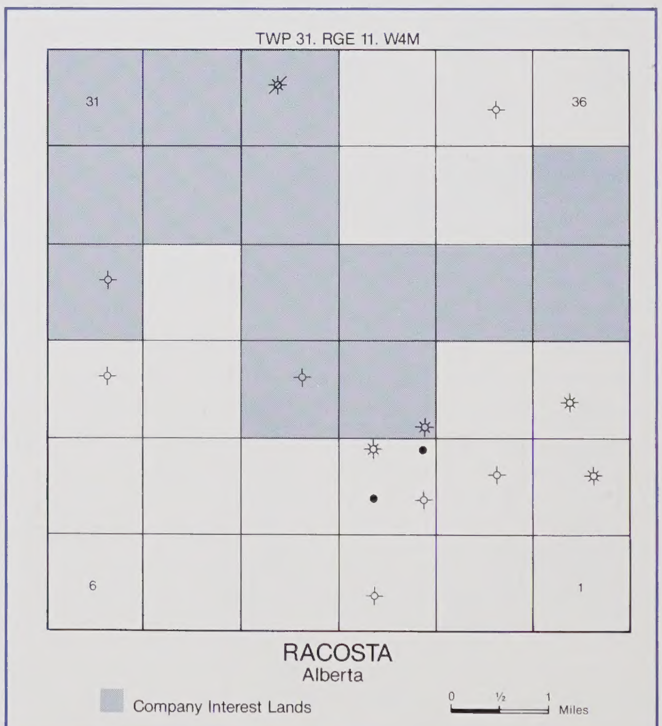
Elsewhere in western Alberta, the Company and the Joint Venture hold a 10% interest in a gas well in the Niton area, north of the Pembina oil field. This well, Landbank et al Leaman 7-5-55-11, tested gas at 110,000 m^3 (3.88 million cubic feet) per day from the Niton sand. Colonial holds a like interest in an additional seven sections of leases to the east and north of the 7-5 discovery.

The Company and the Joint Venture hold a 12.5% interest in a 5,760-acre licence in the Pouce Coupe area of northwestern Alberta. The lands offset the Pouce Coupe gas field which produces from sands of Cretaceous, Triassic and Mississippian ages. Deep-seated faulting in the area has complicated the geological interpretation. In 1980, the Company participated in the drilling and completion of a well located at the southern extremity of the licence. The well encountered shows of oil and gas and has been suspended pending further geologic and reservoir studies.



In the Racosta-Richdale area of southeastern Alberta, the Company holds a 25% interest in 7,680 acres. This area has proven productive of oil or gas in the Belly River, Glauconitic and Basal Quartz sands. One well drilled in 1980 was completed as a Belly River gas discovery well. Two oil wells and one gas well have been completed by another company in an offsetting section. Colonial and partners have carried out a detailed seismic program across the acreage, and in 1981 plan at least two wells based on the seismic interpretation.

Colonial acquired a 20% working interest in an 18,560-acre block in the Del Bonita region of southern Alberta. A major oil company agreed to drill one well with options to drill two more to earn an interest in the lands. Numerous oil and gas shows have been encountered from Cretaceous sandstones and Mississippian limestone. The initial well, Amoco et al Del Bonita 16-35-1-22 discovered oil in a Devonian limestone section that had not previously indicated production in this area. Colonial holds an overriding royalty in this well and a working interest in the surrounding undrilled acreage. A second well, drilled three miles to the northwest, was abandoned. The discovery well has been placed on production. No additional drilling has been planned until the discovery well is fully evaluated through production testing.

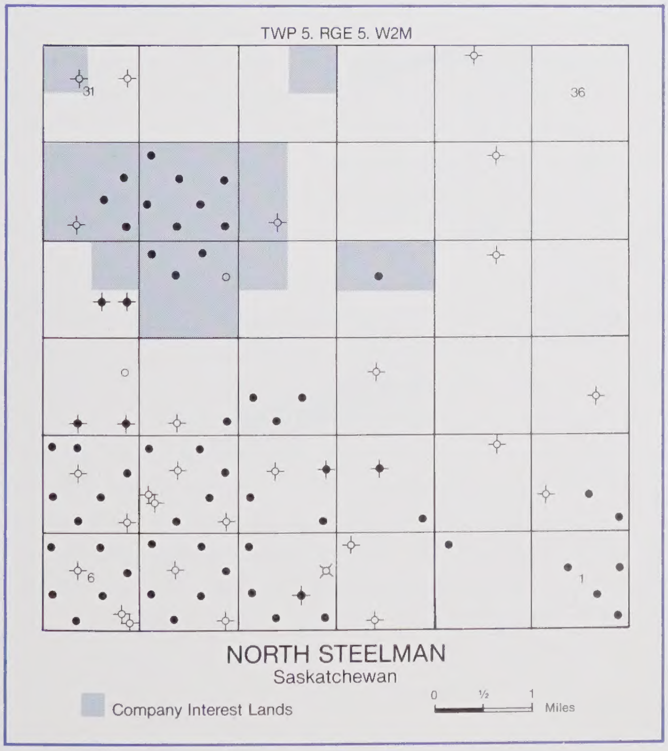


Saskatchewan

In March, 1980, Colonial and partners drilled a discovery oil well north of the Steelman oil field in southeastern Saskatchewan. Colonial and the Joint Venture hold a 13.6% working interest in the discovery, Cherokee et al Steelman 11-20-5-5. The well was placed on production in May and throughout the remainder of 1980 averaged over 1,900 barrels oil per month. Additional lands were acquired and ten more oil wells were drilled. Colonial and the Joint Venture have an 8.16% working interest in these additional wells. As of December, 1980, Colonial and partners were producing in excess of 15,000 barrels oil per month from these wells. Additional development drilling has been planned for 1981. At year-end, the Company also had committed to the drilling of another exploratory well one and one-half miles to the east.

Three development wells were drilled along the west flank of the Steelman oil field. Colonial and the Joint Venture hold a 20% interest prior to payout. Two of these wells were later suspended due to high water production.

The Company participated in the drilling of one development oil well in the Lucky Hills areas of Saskatchewan where a 10.05% working interest is held.



Northwest Territories

The Paramount et al Liard D-29 well was deepened to a total depth of 3,120 metres (10,237 feet). The well was suspended at this depth following drillstem tests which produced gas and salt water.

United States

Montana

Fourteen development or exploratory wells were drilled in the Bullhook gas area. Nine of these wells were completed as gas producers. Colonial, through its wholly-owned United States subsidiary, COG Inc., holds interests varying between 14% and 17% in these wells. It is expected that a similar development program will be carried out in 1981.

A seismic program has been planned for early 1981 in order to plan exploratory drilling in search for oil or gas from deeper formations not yet evaluated in the Bullhook area.

Wyoming

Two oil wells were drilled in Colonial interest lands in the Power River basin of eastern Wyoming. The Company now has a 20% interest in three producing oil wells in this pool. Additional drilling will be carried out in 1981.

United Republic of Cameroon, Africa

As reported in the Company's 1979 Annual Report, Colonial holds a 0.022% overriding royalty on 372,000 acres of permits off the coast of the United Republic of Cameroon. In 1979, Mobil as operator drilled the Sanaga Sud A-1 discovery well on these lands. This well encountered 900 feet of pay which tested natural gas at rates up to 15 million cubic feet per day plus 125 barrels condensate. Mobil has since drilled a second gas condensate well on these lands. Engineering studies have been undertaken toward a liquid natural gas facility in anticipation of gas exports by at least 1987.

Additional drilling is planned for 1981 to determine the size of this reservoir.

Colonial also holds a 1.125% working interest in approximately 72,000 acres farmed out to Gulf and Shell. These lands are located 35 miles northwest of the Sanaga Sud block. Seismic work has been carried out and one well has been drilled and abandoned.

Fort Nelson Gas Ltd.

Fort Nelson Gas Ltd. is a natural gas utility which operates a distribution and transmission system in and around the village of Fort Nelson, B.C. This utility is located in the northeast corner of the province at Mile 300 on the Alaska Highway and is the northern distribution centre for the area, and terminus of the B.C. railroad. A major highway development is continuing on the Simpson Trail which will eventually connect Fort Nelson to the MacKenzie River trade routes when complete. The installation of a bridge this winter, crossing the Petitot River, overcame one severe obstacle, however, the highway is not expected to be completed until 1983.

Fort Nelson Gas Ltd., through its wholly-owned Fort Nelson Transmission Co. Ltd., takes possession of clean gas on the outlet side of Westcoast Transmission's scrubbing plant, located at Mile 285 Alaska Highway and transports it 15 miles to service the village, two forest product mills and the B.C. Hydro electric operation station.

Gas sales of this utility are extremely heat sensitive and the milder than normal weather over the past five years has limited gas consumption. Revenues from gas sold or transported for 1980 were $1,391,592 compared to $1,361,581 in 1979. The new six-inch high pressure gas line installed in the winter of 1979/1980 proved necessary this year, as the peak demand gas volumes to both B.C. Hydro and to the village increased above forecast.

The Company transported or sold 1,282 MMcf to 1,239 customers compared to 1,230 MMcf to 1,120 customers in 1979.

Negotiations for a new gas contract with B.C. Hydro, who generates the bulk of their electric power with gas carried in our line, has not been finalized, even though agreed to, and became effective as of April 1, 1980. This agreement requires B.C. Hydro to pay a wheeling charge of 15¢ for each 1,000 cubic foot delivered to their generators and eliminates the free wheeling of the gas, up to 2,500 Mcf per day previously required in the old agreement.

Land Holdings

Canada

British Columbia

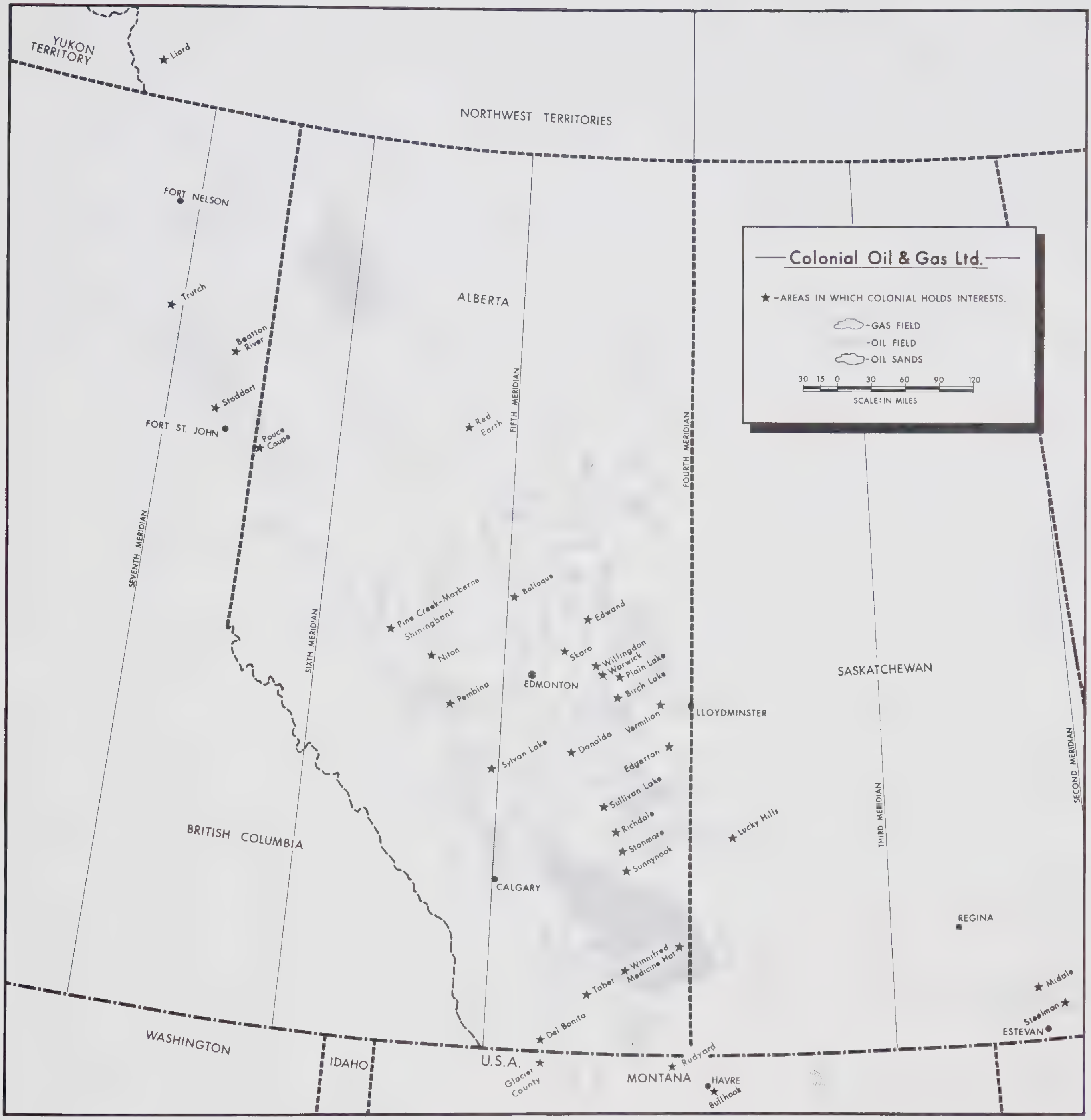
The Company continued to expand its interests in the Trutch area of British Columbia. As reported in the 1979 Annual Report, the Company and the Joint Venture hold interests varying 3.33% and 50% in four drilling reservations and three leases totalling 24,630 acres. During the past year, Colonial and its other partners in the Trutch area took a farmout from a major company involving two drilling reservations totalling 11,150 acres. Colonial has a 10% working interest in this farmout. The Company and its partners agreed to drill two wells — one on each of the two drilling reservations to earn a 60% working interest in these drilling reservations by the drilling of wells to test the Debolt formation. In the area of the farmout lands, gas has been encountered in the Debolt dolomite as well as the Halfway sands.

Wells were drilled on these two parcels early in 1981 and production casing set for production evaluation test.

Alberta

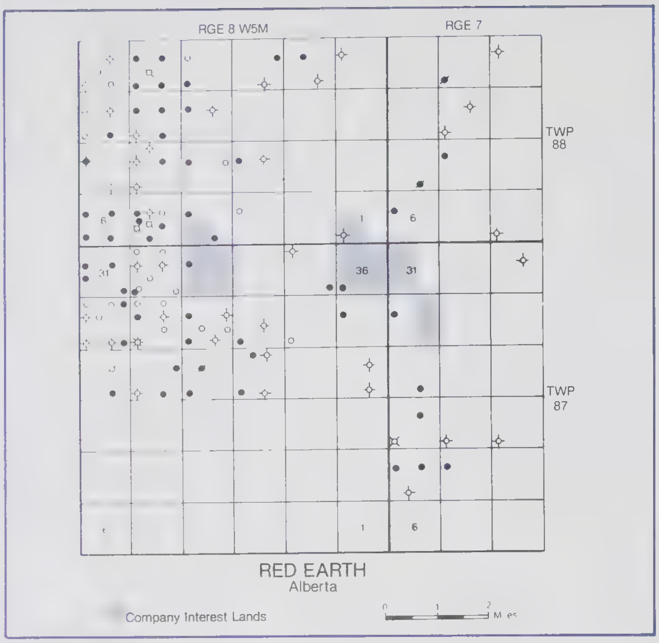
As a result of the discovery of natural gas in Tristar et al Shiningbank 10-12-57-19 where the Company and the Joint Venture hold a 5% working interest, additional lands have been acquired. In 1980 Colonial and partners purchased three sections (1,920 acres) of leases at a Crown sale. Colonial has a 20% working interest in these leases located one to two miles southeast of the 10-12 discovery. Subsequent to year-end, Colonial and its partners commenced a well located in 4-6-57-18 offsetting the newly acquired leases and other lands previously obtained. Colonial et al plan to reenter a previous abandonment on these lands to test a sand which on logs indicated presence of gas but was not originally tested.

In July, 1980, Colonial and its partners discovered gas in the Tristar et al Shiningbank 10-12-56-17 well. Colonial and the Joint Venture hold a 5% working interest in this well. Following this discovery, a farmout was taken involving 1,440 acres located one to two miles to the southwest. Subsequent to year-end, a well, Westgrowth et al Shiningbank 11-3-56-17 was drilled. This well tested gas from a Cretaceous sand and in addition, encountered interesting oil shows from another sand section. The well will be further evaluated by production tests later this year. Additional drilling plans have not yet been formulated.



Land Holdings –
As at April 30, 1981

	Gross Acres	Net Acres
Canada		
Alberta	279,069	33,677
British Columbia ..	49,998	652
Saskatchewan	8,080	685
Northwest Territories	33,178	365
	370,325	35,379
United States	207,710	31,401
International		
German North Sea	98,000	15,680
Cameroons	553,000	2,025
	651,000	17,705
	1,229,035	84,485



Colonial and its partners have taken a farmout involving 2,880 acres offsetting wells in the Red Earth oil field of northern Alberta. Wells in this field produce from either the Devonian Slave Point or Granite Wash formation. Inasmuch as these leases are expiring in 1981, the Company will be able to retain only those leases on which production is established. Subsequent to year-end the Company participated to the extent of a 20% working interest in the drilling of two wells. Both were completed as discovery oil wells. Colonial and its partners have obtained seismic data in the area of the two lease blocks and have reworked this in the light of new information. Further drilling will be carried out in the 1981-82 season.

Colonial and partners undertook a seismic program in the Plain Lake area of eastern Alberta on lands obtained under a farmout arrangement. During 1980, a gas discovery was made on the well Renaissance Plain 11-5-53-13. This well tested gas at approximately two million cubic feet per day from the Colony sand. Other company interest lands in the area also indicate gas potential based on the seismic interpretation.

Saskatchewan

During the year, Colonial and its partners drilled twelve development wells offsetting the Cherokee et al Steelman 11-20-5-5. The original farmout lands, on which the discovery well was located, were expanded by the purchase of Crown lands. Colonial and the Joint Venture presently hold 8.16% interest in 2,800 acres on and surrounding the North Steelman pool. Subsequent to year-end, three more oil wells were completed in this pool.

The Company and its partners have acquired a 320-acre lease located one and one-half miles to the east of the North Steelman pool. An exploratory well is planned on this lease early in 1981. The Company and the Joint Venture have an 8.16% interest in this project.

United States

As a result of the National Energy Policy in Canada, Colonial, like many other companies, has decided to direct a larger portion of its land and exploration budgets into the United States. Better product prices, lower royalties, lower drilling costs and in many cases, better availability of oil and gas leases, have made many areas of the United States attractive. In response to this situation, Colonial has been actively pursuing interesting petroleum areas of the United States.

Montana

Colonial joined a group of companies to carry out an extensive seismic program in an area of northern Montana. Following completion of the initial program the group has been acquiring freehold leases in areas indicated by the seismic to have hydrocarbon potential. This program will be continued in 1981 and additional seismic will be carried out in areas of interest. To date, the group has acquired leases covering 5,300 acres. Colonial has 20% interest in this exploration program.

In the Rudyard area of northern Montana, south of the Alberta-Saskatchewan boundary, the Company has committed to the drilling of two wells to earn a 15% working interest in 107,000 acres. One well has been drilled and abandoned. The second well will be drilled in 1981. In this area several small gas pools have been discovered but no intensive exploration has been undertaken. Colonial has entered this area in the belief that exploration efforts will be greatly increased.

Texas

Subsequent to year-end Colonial committed to a 10% participation in two drilling projects in Gonzales County. Both prospects are based on seismic data and are located in a very active drilling area. The major objective in this area is the Austin Chalk. Some very prolific wells have been found along a favourable trend in southeastern Texas. As of the date of this report, one well is being completed as an indicated oil well, with the second well still drilling.

Ohio

In early 1981, Colonial agreed to participate in the drilling of fifteen wells in Vinton County of central Ohio. The drilling of these wells will earn 10% interest in 1,972 acres. The Company and its partners will have an option to drill a further fifteen wells to earn a similar interest in 5,500 acres. The wells will be drilled to a depth of approximately 3,000 feet to test the Clinton and Berea sands. Though the wells have low productivity, the present price of $4.76 per Mcf makes this area attractive.

Colonial Oil & Gas Limited

Consolidated Statement of Income and Retained Earnings

Year Ended December 31, 1980

	1980	1979
Revenue		
Oil and gas	$2,835,489	$2,984,815
Gas distribution	1,391,592	1,326,176
Interest and other	316,574	248,506
	4,543,655	4,559,497
Costs and Expenses Before Other Charges		
Oil and gas		
Operating	375,159	487,074
Royalties	721,944	773,624
Gas distribution operating	905,474	815,345
Interest		
Long-term debt	235,040	167,763
Other	–	17,342
Salaries and employee benefits	269,650	197,906
Professional and consulting fees	149,265	130,686
General and administrative	295,383	232,086
	2,951,915	2,821,826
Income from Operations Before Other Charges	1,591,740	1,737,671
Other Charges		
Depletion and depreciation	384,179	466,149
Amortization of deferred costs	13,613	24,566
Cost of abandoned properties	154,237	44,151
	552,029	534,866
Income Before Income Taxes and Extraordinary Item	1,039,711	1,202,805
Income Taxes (Note 8)		
Current	80,670	94,758
Deferred	320,705	393,021
	401,375	487,779
Income Before Extraordinary Item	638,336	715,026
Extraordinary Item		
Tax reduction resulting from application of prior years' tax losses	49,514	53,608
Net Income	687,850	768,634
Retained Earnings (Deficit), Beginning of Year	413,606	(355,028)
Retained Earnings, End of Year	$1,101,456	$ 413,606
Income Per Share (Note 10)		
Before extraordinary item	9.5¢	12.5¢
After extraordinary item	10.3¢	13.4¢

Colonial Oil & Gas Limited

Consolidated Balance Sheet
December 31, 1980

Assets

	1980	1979
Current Assets		
Cash and term deposits	$ 1,832,080	$ 1,321,953
Accounts receivable		
Trade	876,831	399,897
Other (Note 2)	745,824	1,576,243
Inventories of supplies – at cost	95,783	73,212
Income taxes	5,144	–
Prepaid expenses	28,983	995
	3,584,645	3,372,300
Investments – at cost (Note 3)	7,614,029	599,312
Property, Plant and Equipment (Note 4)	9,249,299	7,359,520
Other Assets	147,161	138,975
Goodwill – at cost	76,535	76,535
	$20,671,669	$11,546,642

Liabilities

	1980	1979
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,112,160	$ 1,107,779
Income taxes	–	3,015
Security deposits	96,521	99,173
Current portion of long-term debt	172,750	160,500
Deferred income (Note 5)	316,465	–
	1,697,896	1,370,467
Long-Term Debt (Note 6)	8,488,250	1,687,000
Advances on Future Gas Sales	–	6,017
Deferred Income Taxes	1,002,649	681,943
	11,188,795	3,745,427

Shareholders' Equity

	1980	1979
Share Capital (Note 7)	8,381,418	7,387,609
Retained Earnings	1,101,456	413,606
	9,482,874	7,801,215
Approved by the Board:	$20,671,669	$11,546,642

Horace ReKunyk ,Director

James M. Thomson, Q.C. , Director

Colonial Oil & Gas Limited

Consolidated Statement of Changes in Financial Position
Year Ended December 31, 1980

	1980	1979
Sources of Working Capital		
Operations	**$1,511,070**	$1,643,647
Extraordinary item – reduction in income taxes	**49,514**	53,608
Contributions – natural gas consumers	**13,885**	47,583
Issue of share capital for cash	**216,000**	2,519,000
Long-term debt	**7,000,000**	450,000
Other	**–**	518
	8,790,469	4,714,356
Uses of Working Capital		
Additions to petroleum and natural gas properties (net of shares issued in 1980 of $777,809; 1979 $2,136,240)	**1,465,690**	319,161
Additions to plant and equipment	**203;945**	1,020,311
Paid or payable on long-term debt	**198,750**	160,500
Repayment of advances on future gas sales	**6,017**	192,968
Investments	**7,014,717**	599,312
Other	**16,434**	–
	8,905,553	2,292,252
(Decrease) Increase in Working Capital	**(115,084)**	2,422,104
Working Capital (Deficiency), Beginning of Year	**2,001,833**	(420,271)
Working Capital, End of Year	**$1,886,749**	$2,001,833

Colonial Oil & Gas Limited

Notes to The Consolidated Financial Statements

December 31, 1980

1. Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly-owned.

Goodwill arising from the purchase of certain subsidiaries in 1973 is not being amortized.

Foreign currency translation

Foreign currency amounts have been translated to Canadian dollars as follows:

Current assets and current liabilities – at the rate of exchange prevailing at the year-end.

Non-current assets – at the historic rate of exchange.

Sales and expenses – at the average rate of exchange for the year.

Gains and losses from foreign currency translation are included in income.

Petroleum and natural gas properties and depletion

All costs relative to the acquisition, exploration, and development of oil and gas reserves are capitalized until such time as commercial production commences or the property is abandoned. Costs applicable to abandoned properties are charged to operations in the year of abandonment. Depletion of producing properties is provided for on the unit-of-production method based on the estimated recoverable reserves of oil and gas.

Depreciation

Gas and oil production equipment are being depreciated primarily on the unit-of production method, and for certain equipment on the straight-line and declining-balance basis at rates from 10% to 30%.

Gas transmission and distribution facilities and other equipment are being depreciated on a straight-line basis at rates from 2% to 20% as prescribed by the British Columbia Energy Commission.

Amortization of deferred costs

Financing costs are being amortized over the term of the related long-term debt, and rate application hearing costs are being amortized over two years, both on a straight-line basis.

Deferred income taxes

Deferred income taxes result primarily from deducting for tax purposes drilling, exploration, and lease acquisition costs in excess of the related amounts provided in the accounts.

2. Accounts Receivable – Other

This account includes temporary advances made on behalf of Colonial Oil & Gas Limited 1979-1980 Joint Venture Drilling Programs in the amount of $429,359. The balance of the amount, $316,465 represents the proceeds from the take or pay gas contract discussed in Note 5 which was received in 1981.

3. Investments

	1980	1979
Minerals Engineering Company – common shares at cost	$ 599,312	$599,312
Government of Canada Treasury Bills – interest at 14.6% to 17.1%, due at various dates to June 1981, including accrued interest	7,014,717	–
	$7,614,029	$599,312

Minerals Engineering Company, a U.S. mining corporation is involved in the exploration for and development of mining properties in the United States. The company holds a major interest in a large silver property in Creed, Colorado. The company's 200,000 shares (approximately 14% of the issued capital of the company) are classified as "letter stock" and cannot be traded until June 1982. The market value of an equivalent number of free shares trading on the U.S. Over-The-Counter market was approximately Cdn. $2,200,000 at December 31, 1980. The shares are held in escrow subject to an option to certain debenture holders (see Note 6).

The company has invested proceeds of new long-term debt in treasury bills; the company intends to invest the funds in capital assets and as a result the investments have been excluded from current assets.

4. Property, Plant and Equipment

	1980	1979
Petroleum and natural gas properties	$ 8,015,581	$5,926,319
Gas and oil production equipment	620,201	594,481
Gas transmission and distribution facilities	2,265,510	2,166,628
Other	280,468	201,125
Total cost	11,181,760	8,888,553
Less		
Accumulated depletion and depreciation	1,741,343	1,351,800
Contributions from natural gas consumers in aid of construction	191,118	177,233
	$ 9,249,299	$7,359,520

5. Deferred Income

The company is party to a take or pay contract for $316,465 on certain gas production for the contract year ended October 31, 1980. Under the terms of the contract, the purchaser is obligated to take delivery of the gas within a ten-year period from the end of the contract year.

6. Long-Term Debt

	1980	1979
11% debenture due 1989, repayable and secured as discussed below	$1,025,000	$1,125,000
7% Series A first mortgage bonds due 1984, payable in annual instalments of $13,000 and secured by a charge on gas transmission and distribution facilities	52,000	65,000
9-7/8% Series B first mortgage bonds due 1986, payable in annual instalments of $25,000 and secured by a charge on gas transmission and distribution facilities	150,000	175,000
11-1/4% Series C first mortgage bonds due 1994, payable in annual instalments of $16,000 to 1984, $25,000 to 1986 and $40,000 to 1994, and secured by a charge on gas transmission and distribution facilities	434,000	450,000
9% Series A secured convertible debentures, due 1990, secured, convertible and repayable as discussed below	7,000,000	–
7% Series A first mortgage bonds	–	32,500
	8,661,000	1,847,500
Less due within one year	172,750	160,500
	$8,488,250	$1,687,000

The 11% debenture consists of a debenture and mortgage secured by a first charge on the companies' interest in two specific petroleum and natural gas properties, by production equipment on the properties, by the assignment of production purchase agreements and net proceeds from sale of minerals from the pledged properties. The debenture principal is repayable $25,000 quarterly to March 1981 and $31,250 quarterly from June 1981 to March 1989. The debenture agreement provides for the acceleration of principal repayments on the basis of increases in production revenues from the pledged properties.

The 9% convertible debentures are secured by a first floating charge on all assets and undertakings of the company, subject to existing long-term debt, and by the shares of all subsidiary companies. The debentures are redeemable, by the company after November 1984 at par. Before November 1990, holders of $6,000,000 of debentures have the option of converting all or any part of their debentures into shares of Minerals Engineering Company (Note 3) at the rate of 1 share for each U.S. $20 principal amount of debenture outstanding.

The debenture principal is repayable $1,000,000 annually commencing 1984. The debentures are also convertible for common shares of the company as follows:

To November 1983 – 1 share for each $6.25 principal
To November 1985 – 1 share for each $7.25 principal
To November 1987 – 1 share for each $8.50 principal
To November 1990 – 1 share for each $10.00 principal

Principal repayments on all long-term debt for the next five years are as follows:

1981	$ 172,750
1982	179,000
1983	179,000
1984	1,179,000
1985	1,179,000

7. Share Capital

The company is authorized to issue 10,000,000 common shares without par value. Changes in issued and fully paid shares were:

	Shares	Amount
Balance, December 31, 1979	6,502,050	$7,387,609
Issued for cash	100,000	180,000
Issued for properties	169,089	777,809
Issued on exercise of stock option by a director	20,000	36,000
Balance, December 31, 1980	6,791,139	$8,381,418

The company has granted to a director and officer and to certain employees the right to acquire shares under an employee share purchase plan. The shares purchased (none to date) will be held as security for an interest-free demand loan, repayable within 5 years. The following rights have been granted:

To the director and officer – 100,000 shares at $5 per share
To employees – 140,000 shares at $4.50 per share

8. Income Taxes

The provision for income taxes differs from the amount obtained by applying a composite Canadian and U.S. corporation income tax rate to income before income taxes because of the effect of the following:

	1980		1979	
	Amount	**Percentage of Pre-Tax Income**	Amount	Percentage of Pre-Tax Income
Computed income tax expense	**$ 491,783**	**47.3%**	$ 576,189	48.1%
Increase (decrease) in income taxes resulting from				
Non-deductible royalties and other expenses	**262,463**	**25.2**	273,220	22.7
Federal resource allowance	**(138,292)**	**(13.4)**	(148,508)	(12.4)
Provincial royalty tax credit	**(129,312)**	**(12.4)**	(138,065)	(11.5)
Income tax depletion	**(57,786)**	**(5.6)**	(69,126)	5.7)
Other	**(27,481)**	**(2.5)**	(5,931)	(.6)
Income tax expense	**$ 401,375**	**38.6%**	$ 487,779	40.6%

9. Income Per Share

Income per share is based on the monthly weighted average number of shares outstanding during the year.

Fully diluted earnings per share which give effect to the conversion rights of the 9% debentures (Note 6) are greater than basic earnings per share and as a result, have not been presented.

10. Commitments

The company has commitments in the normal course of business, including its agreement to manage the Colonial Oil & Gas Limited 1979-1980 Joint Venture Drilling Programs.

11. Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid or payable to directors and senior officers, as defined in the Company Act, British Columbia, totalled $270,500 for the year, of which $243,500 was paid to full-time employees.

12. Subsequent Event

In February 1981 the company purchased a 15,000 foot drilling rig for U.S. $4,000,000. The company has paid U.S. $1,090,000 with the balance due on delivery of the rig.

13. Business Segment Information

Operations and identifiable assets by industry segment are as follows (in thousands of dollars):

	Natural Resources		Gas Distribution and Transmission		Consolidated	
	1980	1979	1980	1979	1980	1979
Sales to customers	**$3,152**	$3,198	**$1,392**	$1,361	**$4,544**	$4,559
Income before income taxes and extraordinary items	**$ 958**	$ 986	**$ 81**	$ 217	**$ 1,039**	$ 1,203
Provision for income taxes	**358**	376	**43**	112	**401**	488
Income before extraordinary item	**$ 600**	$ 610	**$ 38**	$ 105	**$ 638**	$ 715
Identifiable assets	**$18,457**	$9,269	**$2,215**	$2,278	**$20,672**	
Depreciation and depletion	**$ 339**	$ 438	**$ 45**	$ 28	**384**	$ 466
Capital and exploration expenditures	**$2,109**	$1,739	**$ 134**	$ 716	**$2,243**	$ 2,455

Operations and identifiable assets by geographic region are as follows (in thousands of dollars):

	Canada		United States		Consolidated	
	1980	1979	1980	1979	1980	1979
Sales to customers	**$3,689**	$3,510	**$ 855**	$1,049	**$4,544**	$ 4,559
Income before income taxes and extraordinary item	**$ 576**	$ 667	**$ 463**	$ 536	**$ 1,039**	$ 1,203
Provision for income taxes	**201**	239	**200**	249	**401**	488
Income before extraordinary item	**$ 375**	$ 428	**$ 263**	$ 287	**$ 638**	$ 715
Identifiable assets	**$17,489**	$8,949	**$3,183**	$2,598	**$20,672**	$11,547

Auditors' Report

To the Shareholders of
Colonial Oil & Gas Limited:

We have examined the consolidated balance sheet of Colonial Oil & Gas Limited as at December 31, 1980 and the consolidated statements of income and retained earnings and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, British Columbia
April 16, 1981

DELOITTE HASKINS & SELLS
Chartered Accountants